INDEX TO APPENDICES

IN THE

Supreme Court of the United States

October Term, 1967
No. 1303

LEAR, INCORPORATED, *Petitioner*,

vs.

JOHN S. ADKINS, *Respondent.*

VOLUME II.

APPENDIX TO BRIEF FOR RESPONDENT IN OPPOSITION.

APPENDIX E.

Page 109 of Lear's Brief in the District Court of Appeal Entitled "Respondent's and Cross-Appellant's Opening Brief."

It is a recognized principle of law that when a license agreement provides a grant of a right to either manufacture, use, or sell a product incorporating a patented invention, the licensee is estopped to contest the validity of the licensed patent only as long as the licensee is operating under the license.

The Armstrong Company v. Shell Company of California (1929), 98 Cal. App. 769;

Automatic Radio Manufacturing Company v. Hazeltine Research, Inc. (1949), 339 U.S. 827, 70 S. Ct. 894, 94 L. Ed. 1312;

Del Riccio v. Photochart (1954), 124 Cal. App. 2d 301.

This is not only "the modern rule" as plaintiff likes to call it (Pltf. Op. Br. p. 78), but it is also the "old" rule as well. *Patent Assignments and Licenses* by Ridsdale Ellis (1936), §376, page 428. This rule was set out in the 1939 case of *The Armstrong Co. v. Shell Company of California, supra*, at 778 as follows:

> "It is a well-recognized rule of law that a licensee under a patent right cannot dispute the validity of his licensor's patent."

This estoppel lasts only so long as the licensee operates under the license agreement. This estoppel arises not because of express terms in the agreement but because the licensee is using and enjoying the benefit and protection of the rights covered by the agreement and should not be permitted to reap the benefits of the agreement and at the same time contest the validity of the patents to show failure of consideration for the agreement.

APPENDIX F.

Pages 21-25 of Adkins' Trial Brief Dated February 24, 1964 [C. T. pp. 2319-2322].

7. Lear cannot exercise 2(a) termination without prior or concurrent cessation of manufacture.

In Paragraph 2(a) Lear is given the right "on ninety days prior written notice to Adkins to terminate any one or more of the licenses herein granted". This paragraph, however, is silent on Lear's duty to pay royalties on products manufactured after notice of termination.

Paragraphs 2(a), 3(g), 6, 8 and 10 all pertain to various rights of termination and consequently must be read together in deciding whether Lear may validly exercise 2(a) termination while continuing to manufacture the very same gyros, *O'Connor v. West Sacramento Co.* (1932) 189 Cal. 7, 11. When the five paragraphs dealing with termination are considered together the conclusion is inescapable that *both* parties meant in Paragraph 2(a) that Lear may terminate under this paragraph only if prior thereto or concurrently therewith Lear ceases manufacture of all gyros [p. 21] incorporating said invention in which event Lear has 90 days to complete manufacture of gyros in progress. The obvious purpose of Paragraph 2(a) was to terminate minimum royalty payments if Lear decided to cease manufacture of covered gyros in that even though Lear had no obligation to manufacture it would have to pay yearly minimum royalties even if it did not manufacture as long as the particular license was in effect. [Paragraph 3(g)]

(a) It is absurd to assume that Adkins was exchanging a right to a "mutually satisfactory royalty"

for $500 upon execution of the said agreement [Page 2] which would be the only certain consideration if in conjunction with the right not to manufacture at all [Paragraph 3(g)] Lear also has the right to terminate and continue manufacture royalty free under Paragraph 2(a). Not only does the presumption against "absurd" results prevent such an interpretation but the canon requiring all provisions dealing with the same subject to be construed together requires the result sought by Adkins.

(b) The *only* provisions enabling Lear to manufacture without "further royalt[y] payments" is expressly covered in Paragraph 6 in the event of adjudication of invalidity or non-issuance of "substantial claims"—both of which are acts which third parties only can occasion. There is not one indication in said agreement that Lear can by its own act terminate royalties under Paragraph 2(a) while continuing manufacture. As stated supra such a construction would violate the implied provision in every agreement of good faith and fair dealing *Automatic Vending Co. v. Wisdom* (1960) 182 Cal. App. 2d 354. In other words Lear's only rights to manufacture royalty free are covered in Paragraph 6 and such rights are not to be read into Paragraph 2(a). Paragraph 6 would be wholly redundant if Lear for any reason could terminate under Paragraph 2(a) and escape payment of royalties. [p. 22]

(c) Under Paragraph 3(g) Adkins can terminate Lear's right to manufacture if Lear is in breach by failing to make minimum royalty payments and Lear thereafter has 90 days to complete manufacture of gyros then in progress and is expressly prohibited from further manufacture. It would be absurd to say that

where Adkins can prevent further manufacture if Lear fails to pay minimum royalties, Lear can escape its obligation to pay minimum *and* earned royalties by terminating under 2(a) and thereby not only be relieved of a breach by failure to pay minimum royalties but also acquire the new right to manufacture free of any royalty at all. The 90 day grace period of 3(g) is solely for Lear's benefit and it must be assumed that the 90 day period of 2(a) is also solely for Lear's benefit since it can be of no benefit to Adkins in the absence of a duty to manufacture. Therefore an obligation to cease manufacture arises by necessary implication to give effect to the 90 day grace period and prevent it from being meaningless.

(d) Under Paragraph 10, Adkins can terminate if Lear fails to pay earned royalties and does not cure its default within the notice period. Like Paragraph 2(a) this paragraph is silent on Lear's right to manufacture after termination and it would also be absurd to say that Adkins can bar Lear from further manufacture only if it refuses to pay minimum royalties but not if Lear refuses to pay earned royalties. Consequently the duty to cease manufacture must be implied in both Paragraphs 2(a) and 10.

(e) Paragraph 11 gives Lear four options upon Adkins leaving Lear's employ, three of which require payment of minimum royalties and one earned royalty only. If Lear could terminate under 2(a) and pay no royalties at all this would constitute a fifth option which would result in an absurdity as obviously Lear would always exercise a 2(a) termination. In other words Lear's construction of 2(a) makes Paragraph 11 wholly [p. 23] useless.

(f) It is also arguable that once Adkins leaves Lear's employ 2(a) is superseded by Paragraph 11 which provides that "in such event this license agreement shall continue in full force and effect". This construction is strengthened where the fourth option of no minimum but only earned royalties is elected since the same result pertains under the proper construction of Paragraph 2(a) prior to Adkins leaving Lear's employ.

In addition to a construction of all five termination clauses in said agreement prohibiting an exercise of 2-(a) without prior or concurrent cessation of manufacture the same result must be achieved under CC §1655 and §1656 whereunder provisions which are necessary to make an agreement reasonable and capable of being carried into effect are implied as a matter of law, as any interpretation which would allow Lear to terminate and continue to manufacture the same gyros royalty free would be the most unreasonable construction of this clause that is conceivable. Clearly Adkins was not giving and Lear could not reasonably understand it was acquiring the right to unilaterally end all royalty payments at any time. [p. 24]

APPENDIX G.

1. Pages 31-35 of Adkins' "Answering Brief to the 'Opening Brief for Lear Concerning the Directed Verdict and the Denial of Lear's Motion for Judgment Notwithstanding the Verdict, All With Respect to the 2156 Gyroscope.' "

A. Lear Could Not Exercise Paragraph 2(a) Termination Without Prior or Concurrent Cessation of Manufacture of Covered Gyros, and Its Purported Termination on April 8, 1959 Was Only a Breach of Contract.

In paragraph 2(a) of the license agreement Lear is given the right "on ninety days prior written notice to Adkins to terminate any one or more of the licenses herein granted." This paragraph, however, is silent on the question of under what circumstances Lear may exercise that right, and is also silent on Lear's duty to pay royalties on products manufactured after notice of termination.

Paragraphs 2(a), 3(g), 6, 8 and 10 all pertain to various rights of termination, and, consequently, must be read together in deciding whether Lear may validly exercise 2(a) termination while continuing to manufacture and sell the very same gyros, *O'Connor v. West Sacramento Co.* (1922), 189 Cal. 7, 11. When these paragraphs are considered together, the conclusion is inescapable that Lear may only terminate under paragraph 2(a) if prior thereto or concurrently therewith Lear ceases manufacture of all covered gyros, in which event Lear has ninety days in which to complete manufacture and sale of gyros in progress.

The obvious purpose of paragraph 2(a) was to permit Lear to terminate annual minimum royalty payments if Lear ceased manufacture of covered gyros, as under [p.

31] paragraph 3(g) Lear would have to pay substantial yearly minimum royalties for 17 years even if it did not manufacture as long as the license was in effect.

It is absurd to assume that Adkins was exchanging his right to a "mutually satisfactory royalty" under the first agreement of December 29, 1951 for $500.00 upon execution of the license agreement (p. 2), which would be the only certain consideration if, in conjunction with the right not to manufacture at all (paragraph 3(g)), Lear also had the right to terminate and continue manufacture royalty-free under paragraph 2(a). There is not one indication in the license agreement that Lear could, by its own unilateral act, terminate its obligation to pay royalties under paragraph 2(a) while continuing to manufacture and sell covered gyros.

The *only* provision enabling Lear to terminate and manufacture without "further royalt[y] [payments]" is expressly covered in paragraph 6 in the event of adjudication of invalidity or non-issuance of "substantial claims".

Since Lear's only rights to terminate and thereafter manufacture royalty-free are expressly covered in paragraph 6, such rights are not to be read into paragraph 2(a). Paragraph 6 would be wholly redundant if Lear could for any reason and at any time terminate the license agreement under paragraph 2(a) and escape further payment of royalties.

Under paragraph 3(g) Adkins could terminate Lear's right to manufacture covered gyros if Lear was in breach by failing to make minimum royalty payments, and Lear thereafter had ninety days in which to complete manufacture and sale of gyros then in progress and is thereafter expressly prohibited from further

manufacture. [p. 32] It would be equally absurd to say that where Adkins can prevent further manufacture if Lear fails to pay minimum royalties, Lear can escape its obligation to pay both minimum *and* earned royalties by terminating under paragraph 2(a) and thereby also acquire the new right to manufacture free of any royalty at all. The 90-day grace period of paragraph 3(g) is solely for Lear's benefit. It must also be assumed that the 90-day grace period of paragraph 2(a) is also solely for Lear's benefit, since it can be of no benefit to Adkins in the absence of a duty to manufacture. Therefore, prior or concurrent cessation of manufacture arises in paragraph 2(a) by necessary implication to give effect to the 90-day grace period and prevent it from being meaningless.

Paragraph 11 gives Lear four options upon Adkins' leaving Lear's employ, three of which require payment of minimum royalties and one earned royalties only. If Lear could terminate under paragraph 2(a), continue to manufacture and pay no royalties at all, this would constitute a fifth option and would result in an absurdity, as obviously Lear would always exercise a paragraph 2(a) termination. In other words, Lear's construction of paragraph 2(a) makes paragraph 11 wholly useless.

In addition, implying a condition precedent of prior or concurrent cessation of manufacture into paragraph 2(a) is compelled by C.C. §1655 and §1656, whereunder provisions which are necessary to make an agreement reasonable and capable of being carried into effect are implied as a matter of law. Any interpretation which would allow Lear to terminate under paragraph 2(a) while continuing to manufacture the very same gyros royalty-free would be the most unreasonable construc-

tion of this paragraph that is conceivable. Clearly, Ad-[p. 33] kins was not giving, and Lear could not reasonably understand that it was acquiring, the right to unilaterally end all royalty payments at any time and for any reason.

Pertinent canons of construction are contained in C.C. §1635, *et seq.* These rules of construction require that a contract be interpreted to give effect to the intention of the parties "as it existed at the time of contracting" (§1636); that the language employed, if clear and explicit, is controlling unless it results in an "absurdity" (§1638); that each clause is to be given meaning and used in interpreting every other clause (§1641), *Kohn v. Kohn* (1950), 95 Cal. App. 2d 708; that an interpretation which makes the agreement "reasonable" and "capable of being carried into effect" is required (§1643); and that any uncertainty is interpreted "most strongly" against the party who caused the uncertainty to exist (§1654), *Hunt v. United Bank and Trust Co.* (1930), 210 Cal. 108.

In applying these canons, "stipulations which are necessary to make a contract reasonable . . . are implied" (§1655) *as a matter of law,* and all provisions necessary to carry the agreement into effect are also implied (§1656) *as a matter of law, Brawley v. Crosby Research Foundation* (1946), 73 Cal. App. 2d 103.

Applying these canons of construction and implying stipulations which are necessary to make the contract reasonable does not make a new contract for the parties, as Lear asserts. Rather, it results in a construction of the contract in accordance with the parties' actual intent.

Lear argues, however, that because its obligation to cease manufacture if Adkins terminates is discussed in paragraph 3(g), the obligation to cease manufacture can- [p. 34] not be read as a condition precedent to its right to terminate under paragraph 2(a). The cases it cites for the proposition that where a particular obligation is discussed in one part of an agreement it is not read into another part are, however, distinguishable, since they hold only that additional obligations will not be imposed on the same party. Moreover, the rule is only an aid to construction and not an absolute to be applied when other canons of construction reach a more reasonable result.

Lastly, it should not be forgotten that Lear drafted the license agreement[55] and caused the uncertainty, if any, in paragraph 2(a) to exist. [p. 35]

2. Pages 29-38 of Adkins' "Reply Brief on Appeal From the Judgment for Defendant N. O. V. and From the Order Granting a New Trial in the Alternative."

A. Lear Could Not Exercise Paragraph 2(a) Termination Without Prior or Concurrent Cessation of Manufacture of Covered Gyros.

Paragraph 2(a) states, in the last sentence, that:

> "Lear shall have the right on ninety days prior written notice to terminate any one or more of the licenses herein granted."

Before considering the paragraph 2(a) termination clause, a restatement of Lear's sole argument is essential. Lear's only argument is that because Lear is prohibited by paragraph 3(g) from further manufacture

if Adkins terminated for Lear's failure to pay minimum royalties, the obligation to cease manufacture before termination by Lear should not be read into paragraph 2(a). For this argument Lear cites only the canon of construction that where a subject is covered in one part of an agreement, it is presumed that the parties intentionally omitted it from other parts. This argument ignores the fact that under paragraph 3(g) Lear must cease manufacture *after* termination by *Adkins,* whereas under Adkins' construction of paragraph 2(a) Lear must cease manufacture *before* termination by *Lear*. It also ignores the controlling and superior canon of construction that the actual intent of the parties is to be ascertained regardless of a single technical rule of construction, *Crillo v. Curtola* (1949), 91 Cal. App. 2d 263, 273, *California Building Co. v. Halle* (1947), 80 [p. 29] Cal. App. 2d 229, *Kohn v. Kohn* (1950), 95 Cal. App. 2d 708. The canons of construction are only aids, and one canon cannot be applied when it results in wholly disregarding the actual intent of the parties and other more pertinent canons of construction.

As Lear construes paragraph 2(a) and the three other agreements executed concurrently with the license agreement, Lear had the right at any time to terminate the license agreement under paragraph 2(a) and thereafter, under the release and assignment provisions of the three other agreements, the bearing alignment idea and invention became the property of Lear. It must be remembered that under paragraph 3(g), Lear had no duty to manufacture. Thus, Lear is in effect arguing that it could have terminated the license agreement under paragraph 2(a) one day after execution of that agreement, refrained from manufacture for ninety days, and thereafter the idea and invention and all pat-

ents thereon were automatically assigned to Lear and Lear was also released of all claims by Adkins.

Thus, Lear's construction of paragraph 2(a) would result in the license agreement being void and unenforceable for lack of mutuality of obligation, *Brawley v. Crosby, etc. Foundation, Inc.* (1946), 73 Cal. App. 2d 103. Although Lear states that Adkins asserted that the license agreement was void *ab initio*, Adkins never took that position. Rather, Adkins' position is that if Lear's construction is placed on paragraph 2(a), then the agreement would be void for lack of mutuality.

Civil Code §1643 states that "a contract must receive such an interpretation as will make it lawful, operative, definitive, reasonable and capable of being carried into effect, if it can be done without violating [p. 30] the intention of the parties." Thus, a construction which will make the agreement reasonable and carry out the actual intention of the parties at the time of contracting is preferred.

The obvious purpose of the paragraph 2(a) termination clause was to permit Lear to terminate annual minimum royalty payments required by paragraph 3(g) if Lear ceased manufacturing covered gyros. Under paragraph 3(g), Lear was obligated to pay Adkins minimum royalties of $1,500.00 a year for sixteen years, or $24,000.00, even if it did not manufacture, as long as the license was in effect. Paragraph 3(g) further states that minimum annual royalties are to be paid "provided the licenses . . . are in force and effect," but paragraph 3(g) does not state how Lear can terminate their force and effect if Lear ceases manufacturing covered gyros. Obviously, the "force and effect" phrase is a reference to paragraph 2(a), which is the

only right given to Lear to terminate the license (not the agreement) which is not expressly tied to the happening of a condition. Thus, paragraphs 2(a) and 3(g) must be read together to mean that if Lear ceases manufacturing covered gyros, it can then terminate annual minimum royalties required by paragraph 3(g) by exercising paragraph 2(a) termination. Furthermore, in the absence of any duty to manufacture, the 90-day period of paragraph 2(a) can only be for Lear's benefit, and must mean that like the 90-day period provided in paragraph 3(g) Lear has ninety days in which to complete and sell those gyros then in progress. Any other construction renders the 90-day period meaningless. Thus, the 90-day clause of paragraph 2(a) is still another indication that paragraph 2(a) termina-
[p. 31] tion by Lear requires prior or concurrent cessation of manufacture of covered gyros.

Civil Code §1638 states that "the language of a contract is to govern its interpretation, if the language is clear and explicit and does not involve an absurdity." It would be absurd to assume that Adkins was exchanging his right to a "mutually satisfactory royalty" under the first agreement of December 29, 1951 for $500.00 upon execution of the license agreement (p. 2), which would be the only certain consideration if, in conjunction with the right not to manufacture at all (paragraph 3(g), Lear also had the right to terminate under paragraph 2(a), and continue to manufacture and sell covered gyros royalty-free, and also receive the invention by assignment under the three other agreements, and receive freedom from all claims and suits under the release provisions of those agreements.

Paragraphs 2(a), 3(g), 6, 8 and 10 of the license agreement all pertain to various rights of termination, and consequently must be read together in deciding whether Lear may exercise 2(a) termination while continuing to manufacture and sell covered gyros, *O'Connor v. West Sacramento Co.* (1922), 189 Cal. 7, 11. Paragraph 2(a) is silent on Lear's obligation to pay royalties if it continued to manufacture after termination. The only provision enabling Lear to terminate and continue manufacture without further royalty payments is contained in paragraph 6 in the event of adjudication of invalidity or non-issuance of "substantial claims." Since this right is expressly covered therein, it is not to be read into paragraph 2(a). Paragraph 6 would be wholly redundant if Lear could terminate for any rea- [p. 32] son and at any time under paragraph 2(a) and thereby avoid further royalty payments. Thus, this argument entirely balances Lear's only argument on not reading a condition of prior or concurrent cessation of manufacture into paragraph 2(a) because the subject is mentioned in paragraph 3(g), as why should the right to manufacture royalty-free after termination be read into paragraph 2(a), which would be the result under Lear's construction, if the only right to manufacture royalty-free is fully covered in paragraph 6. In other words, Lear's argument on not reading prior or concurrent cessation of manufacture into paragraph 2(a) requires reading the right to manufacture royalty-free from paragraph 6 into paragraph 2(a).

Under paragraph 3(g) Adkins could terminate Lear's right to manufacture covered gyros if Lear was in breach by failing to make minimum royalty payments. Under paragraph 10, Adkins could terminate the

license agreement if Lear failed to pay earned royalties, but paragraph 10 is, however, silent on the subject of further manufacture after termination, and is also silent on Lear's obligation to pay royalties if it continues to manufacture covered gyros after termination. It would be equally absurd to say that Adkins could prevent further manufacture only if Lear failed to pay minimum royalties and not where Lear failed to pay earned royalties, and equally absurd to say that if Lear continued manufacture after paragraph 10 termination for failure to pay earned royalties it would not be liable for earned royalties.

Rather, it is obvious that the parties so clearly understood that Lear's right to manufacture covered gyros would end upon termination in both the paragraph 2 [p. 33] (a) and paragraph 10 situations that they did not find it necessary to state it in those paragraphs but stated it only in paragraph 3(g) for minimum royalties where there might be some doubt.

Under paragraph 11, Lear received four options upon Adkins' leaving Lear's employ, three of which required payment of increased minimum royalties and one of which required only payment of paragraph 3(g) minimum royalties and actual earned royalties. If Lear could terminate under paragraph 2(a) and pay no further royalties at all, this would constitute a fifth option and also make paragraph 11 wholly redundant. Obviously, a construction of one sentence which renders other paragraphs totally meaningless is to be avoided.

Civil Code Sections 1655 and 1656 require that stipulations which are necessary to make a contract reasonable be implied therein. Any interpretation which would permit Lear to terminate under paragraph 2(a) at

any time and continue to manufacture covered gyros and pay no further royalties and gain the invention by assignment and release would be the most unreasonable construction of paragraph 2(a) that is conceivable. Clearly, Adkins did not intend to give Lear this right, and Lear could not reasonably understand that it was acquiring this right. However, implying the stipulation of prior or concurrent cessation of manufacture into paragraph 2(a) does make the contract reasonable and accords with the parties' actual intent as garnered from other provisions of the license agreement. Implying stipulations which are necessary to make a contract reasonable does not make a new contract for the parties, as Lear asserts, but, rather, results in a construction in accordance with the parties' actual intention at the time of entering into the contract [p. 34]

Finally, it should not be forgotten that Lear alone drafted the license agreement and caused the uncertainty, if any, in paragraph 2(a). to exist, and which, therefore must be resolved in Adkins' favor, Civil Code §1654.

Lear cites several cases for its argument that it had the right under paragraph 2(a) to terminate the contract at any time and for any reason and that thereupon all of Adkins' rights ceased. Principal reliance is placed upon *Stimpson Computing Scale Co. v. W. F. Stimpson Co.* (1900, Cir. 6), 104 Fed. 893. There, however, the license agreement expressly stated that the licensee could terminate by six months' notice of intention "to discontinue the manufacture and sale of such scales *under this contract.*" (Emphasis added.) The court held only that there being no other provisions from which a duty to cease manufacture could be implied, the phrase

"under this contract" must be given its literal meaning and meant that the licensee did not have to cease manufacture, but only cease manufacture under the contract. Not only was the language of the termination clause completely different in the *Stimpson* case, but, in addition, there was no provision for yearly minimum royalties which would continue even if the licensee ceased manufacture, as there is in our case, and consequently the *Stimpson* case is entirely distinguishable.

American Machine & Metals v. De Bothezat Impeller Co. (1949, D.C., S.D., N.Y.), 82 F. Supp. 556, is also distinguishable. In that case defendant assigned certain patents for fans and leased machinery and equipment for their manufacture to plaintiff and went out of the fan business. The contract provided that upon six months' notice from plaintiff the assignment [p. 35] agreement (not the license agreement) would end. The defendant then went back into the fan business. In holding on a preliminary motion that plaintiff could terminate the assignment agreement and continue in the fan business, the court analogized the situation to two joint venturers, and cited the rule that after termination of a joint venture agreement both parties are free to engage in the same business.

In our case the parties were not competing manufacturers and the rule has no application. Moreover, the fact that the lease agreement did not terminate in the *De Bothezat* case is a strong indication that plaintiff did not have to go out of business upon terminating the assignment.

In *Brawley v. Crosby, etc. Foundation, Inc.* (1946), 73 Cal. App. 2d 103, a license agreement contained a

clause permitting the licensee to cancel on sixty days' notice, and the sole issue was not whether the licensee had to cease manufacturing in order to effectively exercise that right, but whether an obligation to manufacture during the 60-day period was to be implied to prevent a failure of the agreement for lack of mutuality.

Union Switch & Signal Co. v. Johnson (1896, Cir. 3), 72 Fed. 147, involved only the question of whether an express provision prohibiting manufacture after exercise of a one-year termination clause by one party was effective after both parties mutually terminated the entire agreement.

In all the other cases cited by Lear for the proposition that matter expressed in one part of an agreement will not be read into another part, the question was not whether to imply a condition precedent to exercising a [p. 36] termination clause, but whether to impose an additional obligation on one party. For example, in *County of Alameda v. Southern Pacific Co.* (1961), 55 Cal. 2d 479, one party agreed to indemnify the other in two situations only. The court held that a third situation could not be added by implication. Moreover, in that case the party seeking to imply the additional obligation had prepared the contract. Further, there was no intention discernible from any other paragraph that indemnity in a third situation was to be added.

Similarly, in *Foley v. Euless* (1931), 214 Cal. 506, plaintiff agreed to process raisins delivered by defendant, and the sole issue was whether, in the absence of an express provision requiring delivery, defendant was obligated to deliver any raisins. In finding that defendant was not, the court held that implied obligations are to

be read into an agreement only where necessary to carry out the intention of the parties or to reach the result actually intended by them.

This case supports Adkins' argument rather than Lear's, as clearly the parties did not intend that Lear could terminate at any time under paragraph 2(a), continue thereafter to manufacture royalty-free, and receive an assignment of Adkins' invention and a release of all causes of action under the three other agreements.

Thus, implying cessation of manufacture into paragraph 2(a) as a condition precedent to termination of the license is necessary to carry out the original intention of the parties that Adkins receive a royalty for gyros manufactured and sold by Lear which incorporate his invention unless one of the conditions subsequent set forth in paragraph 6 occurred. [p. 37]

Consequently, since Lear did not cease manufacture of covered gyros on April 8, 1959, its attempt to terminate the license agreement on that date under paragraph 2-(a) was only a breach of contract and did not terminate the license agreement, which remained in effect. [p. 38]

APPENDIX H.

Pages 42-46 of Adkins' "Petition for Hearing" in the California Supreme Court.

B. Lear Could Not Exercise Paragraph 2(a) Termination Without Prior or Concurrent Cessation of Manufacture of Gyros Embodying Adkins' Invention.

As indicated *supra,* the District Court of Appeal did not consider at all whether the license agreement was terminated by Lear's letter of April 8, 1959 under paragraph 2(a). That paragraph states, in the last sentence, that "Lear shall have the right, on 90 days' prior written notice, to terminate any one or more of the licenses herein granted," but is silent on Lear's right to manufacture after termination and also silent on Lear's obligation for royalties if it does so.

The obvious purpose of the paragraph 2(a) termination clause was to permit Lear to terminate annual minimum royalty payments required by paragraph 3(g) if Lear ceased manufacturing gyros using Adkins' invention. Under paragraph 3(g) Lear was obligated to pay Adkins minimum royalties of $1,500.00 a year for 16 years (i.e., $24,000.00), even if it ceased manufacture of gyros containing Adkins' invention, as long as the license was in effect. Paragraph 3(g) expressly states that minimum annual royalties are to be paid "provided the licenses are *in force and effect,*" but paragraph 3(g) does not contain any provision for Lear to terminate their force or effect if Lear ceased manufacturing gyros using Adkins' invention. Obviously, the "force and effect" phrase is a reference to paragraph 2(a), which contains Lear's only right to terminate the license (not the agreement) which is not expressly tied to the happening of a condition. Thus, paragraphs 2(a)

[p. 42]

and 3(g) must be read together to mean that if Lear ceases manufacturing gyros utilizing Adkins' invention, it may then terminate annual minimum royalties required by paragraph 3(g) by exercising paragraph 2(a) termination.

Furthermore, in the absence of any duty to manufacture, which is expressly stated in paragraph 3(g), the 90-day period of paragraph 2(a) can only be for Lear's benefit, and must mean that like the 90-day period provided in paragraph 3(g) if Adkins terminates, Lear has 90 days in which to complete and sell gyros containing Adkins' invention then in the process of being manufactured. Any other construction renders the 90-day period totally meaningless. Thus, the 90-day clause of paragraph 2(a) is still another indication that paragraph 2(a) termination by Lear requires prior or concurrent cessation of manufacture of gyros containing Adkins' invention.

Civil Code Section 1643 states that "a contract must receive such an interpretation as will make it lawful, operative, definitive, reasonable and capable of being carried into effect, if it can be done without violating the intention of the parties." Civil Code Section 1638 states that the language of a contract is to govern its interpretation if that language is clear, explicit and does not involve an absurdity, *Kohn v. Kohn* (1950), 95 Cal. App. 2d 708. It would be absurd to assume that Adkins was exchanging his right to a "mutually satisfactory royalty" under the first agreement of December 29, 1951 for $500.00 upon execution of the license agree- [p. 43] ment, which would be the only certain consideration if, in conjunction with the right not to manufacture at all, Lear also had the right to terminate

under paragraph 2(a) and continue to manufacture and sell gyros embodying Adkins' invention royalty-free. This conclusion is reinforced by paragraph 6 which gives Lear the right to manufacture without further payment of royalties only in the event the Patent Office refuses to issue a patent on the invention disclosed containing substantial claims, or in the event the patent is held invalid. Thus, since Lear's only right to manufacture royalty-free is expressly stated in paragraph 6, it is not to be read into paragraph 2(a), *County of Alameda v. Southern Pacific Co.* (1961), 55 Cal. 2d 479. Rather, paragraph 2(a) should be interpreted in accordance with the reasonable intention of the parties that in the event Lear ceased manufacturing gyros using Adkins' invention, it should thereafter be able to avoid the payment of minimum annual royalties.

In addition, paragraph 6 would be wholly redundant if Lear could terminate for any reason and at any time under paragraph 2(a) and thereby avoid further royalty payments. Similarly, paragraph 11 would be wholly redundant if Lear could terminate at any time and for any reason and thereby avoid further royalty payments. Under paragraph 11, Lear received four options upon Adkins' leaving Lear's employ, three of which required payment of increased minimum royalties and one of which required only payment of paragraph 3(g) minimum royalties and actual earned royalties. If Lear could terminate under paragraph 2(a) for no reason at all and pay no further royalties at all, this would constitute a fifth option, thus making paragraph 11 wholly redundant. [p. 44]

A further argument also supports Adkins' construction of paragraph 2(a). Under paragraph 3(g) Adkins

could terminate Lear's right to manufacture gyros using Adkins' invention if Lear was in breach by failing to make minimum royalty payments. Under paragraph 10 Adkins could terminate the license agreement if Lear failed to pay earned royalties. Like paragraph 2, paragraph 10 is also silent on the subject of further manufacture after termination, and is also silent on Lear's obligation to pay royalties if it continued to manufacture gyros containing Adkins' invention after a paragraph 10 termination by Adkins. It would be absurd to say that Adkins could prevent further manufacture only if Lear failed to pay minimum royalties and not if Lear failed to pay earned royalties, and equally absurd to say that if Lear continued manufacture after paragraph 10 termination, it would not be liable for earned royalties. Rather, it is obvious that the parties so clearly understood that Lear's right to manufacture gyros using Adkins' invention would end upon termination in both the paragraph 2(a) and paragraph 10 situations, and that Lear would be liable for earned royalties if it thereafter continued manufacture, that they did not find it necessary to so state in those paragraphs, but stated it only in paragraph 3(g) for failure to pay minimum royalties where there might be some question.

Even apart from the foregoing construction arguments, paragraph 2(a) could not be read to permit Lear to terminate at any time and for no reason at all and thereafter continue to manufacture gyros using Adkins' invention royalty-free. Civil Code Sections 1655 and 1656 require that stipulations which are necessary to make a contract reasonable be implied therein, *Brawley v. Crosby Research Foundation* (1946), 73 Cal. App. [p. 45] 2d 103. Any interpretation which would permit Lear to terminate under paragraph 2(a) at any time

and for no reason and continue to manufacture gyros utilizing Adkins' invention royalty-free would be the most unreasonable construction that could be placed on the license agreement, as it is obvious that the intent of the parties was that Lear was to pay royalties to Adkins as long as it manufactured gyros containing his invention, subject only to its right to terminate under paragraph 6 if no substantial claims issued. Thus, implying in paragraph 2(a) the stipulation of prior or concurrent cessation of manufacture before exercise of the termination right stated therein makes the contract reasonable and accords with the parties' actual intent as garnered from the other provisions of the license agreement.

Finally, it should not be forgotten that Lear alone drafted the license agreement [Rep. Tr. p. 2500, lines 2-5] and caused the uncertainty in paragraph 2(a), if any, to exist, and which must, therefore, be resolved in Adkins' favor, Civil Code §1654; *Hunt v. United Bank and Trust Co.* (1930), 210 Cal. 108.

Thus, since Lear manufactured gyros containing Adkins' invention before April 8, 1959 and continued to do so after that date, Lear never had the right to effect and therefore never effected a paragraph 2(a) termination of the license agreement, and its letter of that date was only a breach of contract which did not terminate the license agreement. [p. 46]

APPENDIX I.

Pages 39-64 of Lear's "Opening Brief for Lear Concerning the Directed Verdict and the Denial of Lear's Motion for Judgment Notwithstanding the Verdict, All With Respect to the 2156 Gyroscope."

II.

The License Agreement Was Terminated on April 8, 1959, and Was of No Force or Effect After That Date.

On April 8, 1959, defendant notified plaintiff by registered mail (which was received by plaintiff) as follows:

> "Reference is made to License Agreement between you and Lear, Incorporated dated the 15th day of September, 1955.
>
> "Pursuant to its rights of termination as contained in said agreement, including but not limited to Paragraphs 2(a) and 6 thereof, Lear, Incorporated hereby exercises its rights and options to terminate the agreement and licenses therein granted" [Ex. 39].

Paragraphs 2(a) and 6 of the license agreement [Ex. 8] state in pertinent part as follows:

> "2. GRANT.
>
> (a) . . . Lear shall have the right on ninety days' prior written notice to Adkins, to terminate any one or more of the licenses herein granted."
>
> "6. INVALID PATENTS.
>
> In the event . . . the U. S. Patent Office refuses to issue a patent on the substantial claims of the application attached as Exhibit 'B' [this is

plaintiff's application Serial No. 410,237 which became Patent No. 2,919,586] or if such a patent so issued is subsequently held invalid, . . . then in any of such events Lear at its option shall have the right forthwith to terminate the specific license so affected or to terminate this entire Agree- [p. 39] ment and no further royalties shall thereupon be payable under the license so terminated or under this Agreement if Lear shall have elected to terminate this Agreement in its entirety."

In accordance with the provisions of paragraph 9 of the license agreement [Ex. 8] defendant had the right to monitor the proceedings concerning plaintiff's patent application.

By April, 1959, plaintiff's patent application had been pending for more than five years, and no claims directed to bearing mountings had been allowed. These claims had been repeatedly rejected by the Patent Office as being unpatentable, and plaintiff had not obtained allowance of any substantial claims or any claims that could possibly provide patent protection for defendant's products.

On April 8, 1959, defendant exercised its rights to terminate the agreement because the agreement provided no benefit to defendant in return for the more than $30,000 in royalties it had paid plaintiff.

Some unidentified person in the law firm representing plaintiff interviewed the Examiner and without setting forth the reasons for getting the Examiner to reverse his position, obtained an agreement from the Examiner that some newly drafted claims 29-36 would be allowable. These claims were filed in the Patent Office on April 30, 1959 [Ex. P—p. 68], approxi-

mately three weeks after the license agreement was terminated. They were allowed by the Patent Office on July 1, 1959 [Ex. P—p. 70], three and one-half months after the agreement was terminated, and the patent issued about nine months after the agreement was terminated. During this period of time, defend- [p. 40] ant's former Patent Agent, Perry Turner, was representing plaintiff and actually signed his name or caused his initials to appear on papers filed in the application during the part of this period after he became admitted to the California Bar on June 10, 1959 [Ex. P—pp. 71, 73, 83, 84]. Mr. Turner worked under the supervision of Mr. Patton who signed the other papers filed in the application [p. 1881, Ex. P]. He asserted the attorney-client privilege with respect to the full extent of his participation [Clk. Tr. pp. 422-427].

Thus, defendant terminated the license agreement before any pertinent claims were allowed, while Mr. Turner was seeking allowance of the application on behalf of plaintiff, and before the patent issued on January 5, 1960.

The trial court ruled on numerous occasions that the license agreement was terminated on April 8, 1959, as a matter of law.

At the beginning of the trial the court stated to the jury:

> "There was a clause in this agreement permitting defendant to withdraw or terminate under it, which they did . . ." [p. 239].

During some of the proceedings in chambers, the following colloquy took place:

> "Mr. Hartz: Yes; under the terms of the agreement, under Paragraph 2(a) which provides that

Lear on 90 days written notice may terminate this agreement, under Paragraph 6 which states that in the event the U. S. Patent Office refuses to issue a patent on substantial claims, Lear has the option to forthwith terminate this agreement. [p. 41]

The Court: There is no question about the right to terminate.

Mr. Hartz: All right.

The Court: Now, I am talking about the Lear device, the Michigan device.

Mr. Hartz: Yes.

Mr. Cohen: I assume I am going to get the right to be heard at length on this.

The Court: After the notice of termination do you feel that you thereby acquired the right to use the Adkins device without burden or liability of any kind?

Mr. Hartz: Only subject to his patent rights, yes, your Honor, that is correct.

The Court: In other words, you feel that Adkins is remitted solely to an action for infringement.

Mr. Hartz: That is correct. That has been our position from the beginning.

Mr. Cohen: That is directly contrary to the holding in Seagren v. Smith and 63 Cal. App. 2d which covered this exact point and is the only case in California that covers this point. So they are arguing in the face of authority from the District Court of Appeal." [pp. 2583-2584].

Toward the end of the trial the court stated during the proceedings in Chambers:

"Mr. Hartz: Yes, your Honor, but we submit that we, having terminated the license, can challenge

the validity and we submit that the Stimson Computing Scale Company case, and these two sections in Walker on Patents, which is Section 385 and Section 391 make this the rule that you can contest the validity after termination. [p. 42]

Mr. Cohen: Your Honor has already ruled that Seagren v. Smith is applicable as to that and they have not effectively terminated the agreement under Seagren v. Smith, which is the holding of that case.

The Court: No, I hold that they have terminated the agreement, but they are liable for any royalties that may have been incurred before or after if they continue to use the device that was under the protection of the Adkins patent." [p. 2627].

Plaintiff endeavored to straddle the issue of termination, and he submitted alternative jury instructions to the effect that the agreement was not terminated and to the effect that the agreement was terminated. By way of example, plaintiff's requested instruction No. 47 states in part:

"You are instructed that because Lear continued to manufacture 2152, 2153 and 2156 gyros which are covered products after April 8, 1959 that Lear's attempt to exercise the termination right under Paragraph 2(a) was wholly ineffective to terminate the license of the bearing alignment invention for the reason that Lear could only exercise 2(a) termination if at the same time or before exercise thereof Lear stopped manufacture of gyros incorporating the bearing alignment invention." [p. 3400, lines 14-23].

This instruction, along with several others to the same general effect, was refused.

Toward the end of the trial plaintiff took the position that the agreement was terminated as a matter of law, but that Lear was liable under the unjust en-[p. 43] richment doctrine of *Seagren v. Smith* (1944), 63 Cal. App. 2d 733. Plaintiff even obtained a jury instruction to that effect which states:

> "PLAINTIFF'S REQUESTED JURY INSTRUCTION NO. 49
>
> "Even though the license of the bearing alignment invention was terminated by Lear's letter of April 8, 1959 and of no further force or effect, Lear is nevertheless liable to Adkins for royalties, if you find that any products covered by Adkins' patent were thereafter manufactured and sold by Lear." [p. 3080].

This portion of plaintiff's requested instruction No. 49 was given without modification by the court. Plaintiff cited *Seagren v. Smith,* as authority for this portion of the instruction. A second paragraph of the requested instruction No. 49 was stricken [p. 2772].

The following colloquy took place in chambers with respect to jury instructions concerning the issue of termination:

> "The Court: I was under the impression that your stipulated statement of facts support the instruction that of April 8, 1955 [sic] the agreement was terminated.
>
> Mr. Hartz: It was stipulated the letter was sent and received and it is our position that this is sufficient for the termination. This is all that was re-

quired. All the conditions were met and as a matter of law the termination was effective.

The Court: I don't know what question of fact remains.

Mr. Cohen: That is the point, your Honor. I think it should be removed from the jury as not a [p. 44] question of fact for them since your Honor has instructed them on it as a question of law.

The Court: Oh, you are not objecting to the recital of the matter as a question of law?

Mr. Cohen: Not in that form.

The Court: I gave it to the jury because it seemed to me that for them to get the whole picture it was necessary for them to have the facts of termination before them. If there is any question in anybody's mind as to what the jury could reasonably feel about it, why, I will make it very clear to them.

Mr. Cohen: Your Honor stated, the effect was that the letter did effect the termination, but that as a matter of law they were still liable for the agreed royalty rate if they continued to manufacture the product. Now, this, as I say, and I think that Mr. Hartz agrees, is a matter of law. Your Honor has correctly instructed them on this matter of law, as you determined the matter of law to exist, and it should not go to them under the instruction that they can find as a matter of fact that the agreement is terminated in conflict with your Honr's instructions on that subject.

The Court: I am afraid I don't follow you.

Mr. Cohen: *What I am saying is that your Honor instructed them that the agreement was terminated by the letter of April 8, 1959.*

The Court: *Yes.*

Mr. Cohen: *But that thereafter Lear would continue to be liable for royalties at the agreed royalty rate if they continued to manufacture the products that are covered by the patent.* [p. 45]

The Court: *You agree with that, do you not?*

Mr. Cohen: *Yes, your Honor.*

Mr. Hartz: We do not, your Honor.

Mr. Cohen: That is the Seagren v. Smith case, which is a correct proposition of law. However, the jury must find in accordance with that instruction of law, and does not have the right to find it as a question of fact that the agreement was terminated and that therefore no further royalties are due." [pp. 3042-3043]. (Emphasis ours.)

Thus, plaintiff and defendant and the trial court all agreed that the license agreement [Ex. 8] was terminated as a matter of law. Plaintiff and the trial court were of the opinion that any liability would be based upon the unjust enrichment doctrine as set forth in *Seagren v. Smith* (1944), 63 Cal. App. 2d 733. Defendant did not agree that *Seagren v. Smith* applies, and this issue will be discussed in section IV of this brief.

It is submitted further that the directed verdict is in error because the license agreement was terminated, and the law is clear that the doctrine of license estoppel does not continue after termination of the agreement. The case of *Seagren v. Smith, supra,* is not in conflict with this principle because the issues of validity and infringement of a patent issued after the termination of a license agreement were not raised or decided in that case.

It is also submitted that the directed verdict is in error concerning the infringement issue because the doctrine of licensee estoppel has never applied to infringement or the questions of coverage.

The directed verdict is also in error because there is a complete failure of consideration to support any obli- [p.46] gation imposed by law, such as under the unjust enrichment doctrine of *Seagren v. Smith.*

When a license includes a termination provision which is exercised by either party, any estoppel to contest validity of the licensed patent does not continue beyond the date of termination. The reason for the rule is that after termination the licensor-licensee status is at an end and the parties stand in the same position and with the same rights that strangers have.

Davis v. Buck-Jackson Corporation (4th Cir. 1956), 230 F. 2d 655;

Miehle Printing Press & Mfg. Co. v. Publication Corporation (7th Cir. 1948), 166 F. 2d 615;

Measurements Corp. v. Ferris Instruments Corp. (3rd Cir. 1947), 159 F. 2d 590;

Tate v. Baltimore & O. R. Co. (4th Cir. 1915), 229 Fed. 141;

Stimpson Computing Scale v. W. F. Stimpson (6th Cir. 1900), 104 Fed. 893;

Walker on Patents (Deller's Ed.), 1937, pp. 1496 and 1505.

The basic rules of licensee estoppel are summarized in 69 *Corpus Juris Secundum,* §160.a(1), page 621 wherein it is stated:

> "In general a licensee, during the continuance of the license, is estopped to deny the validity of the patent on any ground."

See also 69 C.J.S., §160.a(3), page 624.

And in 69 *C.J.S.*, §254c, page 784, wherein it is stated:

> "As a general rule the lawful cancellation of a patent license relegates the parties to their status prior to the granting of the license. . . . [p. 47]
>
> Except as the agreement may otherwise provide, on proper termination of the license, the rights and liabilities of the licensee thereunder are likewise brought to an end . . . he (the licensee) is no longer estopped to deny the validity of the patent . . ."

In *Miehle Printing & Mfg. Co. v. Publication Corporation, supra,* the court held that licensee estoppel does not survive termination of the license agreement, stating, at page 618:

> "We recognize, of course, the rule by which a patent licensee may be estopped during the term of the license to dispute the validity of the patent, but we are of the view that it has no application where the licensee effects a valid cancellation of the license agreement, as was done here."

The case of *Stimpson Computing Scale Co. v. W. F. Stimpson, supra,* involved a very similar factual situation to that of the present case. In the *Stimpson* case the licensor had a patent application pending in the Patent Office and the patent issued at a later date. The license agreement provided that the licensee shall have the right to determine the agreement and its obligations

thereunder by giving six months' notice in writing to the licensor. The court held that the licensee could terminate the agreement by giving the prescribed notice and stated at page 897:

> ". . . That being out of the case, we can find no ground on which to restrain the manufacture and sale by the appellants of the articles mentioned. It may expose the appellant to a suit for infringement, but that, as we have said, is foreign to the purpose of the present suit. Aside from the patent, [p. 48] there is nothing to prevent the appellant from selling the same kind of goods as it sold during the term of the contract."

The case of *The Armstrong Company v. Shell Company of California* (1929), 98 Cal. App. 769 is to the same effect. The majority decided the *Armstrong* case on another and separate issue. However, this does not detract from the fact that the above rules of law are recognized in California. As stated in the *Armstrong* case at page 778:

> "Appellant next contends that the trial court erred in overruling plaintiff's motion to strike out all testimony, exhibits and proofs offered for the purpose of showing that plaintiff's patent was invalid. It is a well-recognized rule of law that a licensee under a patent right cannot dispute the validity of his licensor's patent. But an apparent exception to the rule of estoppel exists where the licensee repudiates the license."

The exception is even more applicable where the license agreement is terminated in accordance with termination provisions therein, as in the present case, be-

cause the former licensee thereafter neither receives nor enjoys any benefit or protection under the patent or patent applications covered by the agreement. The analysis in the *Armstrong* case continues on page 779:

> "... A licensee is estopped to show the invalidity of licensed patents as a defense to an action for royalties only so long as the relation of licensor and licensee continues and the licensee uses and enjoys the benefit and protection of the patents covered by the agreement. ... A licensee, if the pat- [p. 49] ents are in fact invalid, may, without waiting to be evicted, denounce and abandon the license, and after giving notice thereof to the licensor, may defend against an action to enforce the license or to recover royalties subsequently accruing, with the same freedom as may a stranger to the patent, and the licensor is remitted to his infringement suit."

It is noted in the *Armstrong* case that the situation is more favorable to the former licensee when the agreement is terminated rather than repudiated. This recognition that a termination provision always allows the former licensee to contest the validity after termination and an analysis of the reason for licensee estoppel is set forth in the *Armstrong* case, beginning on page 779:

> "... The contention is made and some support therefor may be found in the books, that a licensee cannot, *in the absence of a provision permitting the license to be terminated,* contest the validity of patents covered by the agreement, even after renunciation and notice. This contention originates in the commonlaw doctrine of estoppel by covenant. It requires to support it, first, a special admission, of

fact, namely, that the patent is valid, or that the licensor is the first and true inventor of the invention covered by the patent; and second, a deed or covenant under seal which, at common law, barred a party thereto from disputing the truth of an admitted fact. It is doubtful if this rule ever had any application in equity, which from early days, gave relief against deed or agreements under seal in certain situations; but, be that as it may, the true rule, in my opinion, now is that the licensee, whenever he ascertains that the patents covered by the license [p. 50] agreement are invalid, may refuse to be further bound thereby, and, upon repudiation and notice, may thereafter defend against an action for royalties or an infringement suit as freely as may a stranger. This is particularly true in a case like the present, where the license agreement contains no recital or clause admitting the validity of the patents and no stipulation not to dispute or contest the validity thereof. If the patents are in fact invalid, then there is no continuing consideration for the agreement, and as was said by Mr. Justice Brown in *Pope Mfg. Co. v. Gormully,* 144 U.S. 234 [36 L. Ed. 414, 12 Sup. Ct. Rep. 636, see, also, Rose's U.S. Notes]: 'It is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly.'" (Emphasis added.)

The limits of the licensee estoppel doctrine were recognized as early as 1886 in the case of *Brown v. Lapham* (S.D. N.Y., 1886), 27 Fed. 77. In the *Brown* case the defendants were prior licensees of plaintiff who had

brought suit against them in equity and who had moved for a preliminary injunction. The court answered plaintiff's motion in the following manner as set forth at page 77:

> "... The plaintiff relies upon the estoppel of the defendants to deny the validity of the patent growing out of the license and the operating under it by them. There is no fair question but that a licensee under a patent is estopped to deny its validity of any question arising out of that relation between the parties. *Kinsman v. Parkhurst,* 18 How. 289. [p. 51] It does not follow that he will be always estopped because he has stood in that relation. When he stands out from under the license, and claims nothing from it, and does nothing more under it. with full knowledge to the licensor of his position, he would appear to be at as full liberty to contest the patent as anyone ..."

Additional authorities to the same effect are:

H. Tibbe & Son Manufacturing Co. v. Heineken (Circuit Court S.D. N.Y. 1889), 37 Fed. 686;

DeCrew v. Union Bag & Paper Corp. (N.J. 1944), 57 F. Supp. 388;

Howe v. Atwood (E.D. Mich. 1942), 47 F. Supp. 979;

Frost Ry. Supply Co. v. T. H. Symington & Son (Md. 1938), 24 F. Supp. 20;

Chance v. Lehigh Navigation Coal Company (E. Pa. 1938), 25 F. Supp. 532;

Eskimo Pie Corporation v. National Ice Cream Co. (W.D. Ky. 1927), 20 F. 2d 1003;

Bituminous Products Co. v. Headley Good Roads Co. (D. Del. 1924), 2 F. 2d 83.

With respect to infringement, even an existing licensee or assignee to which the doctrine of licensee estoppel applies, is not liable for royalties under a license contract when the patent claims construed in light of the specification, patent history, and prior art do not cover defendant's manufactured products.

> *Westinghouse Electric & Mfg. Co. v. Formica Insulation Co.* (1924), 266 U.S. 342; [p. 52]
> *Baldwin Rubber Co. v. Paine & Williams Co.* (6th Cir. 1939), 107 F. 2d 350;
> *Farmland Irrigation Co. v. Dopplmaier* (1957), 48 Cal. 2d 208;
> *Garland v. Remington Arms Company* (S.D. N.Y. 1956), 137 F. Supp. 622.

It is also settled California law that mere nonpayment of royalties allegedly due under a licensed application is not a breach, and does not constitute a basis for awarding royalties when the claims of the patent which issues do not cover the manufactured products or the invention as originally represented and warranted by the licensor. *Marvin v. Mills Alloys, Inc.* (1939), 31 Cal. App. 2d 549.

Furthermore, a licensee who is estopped to consent validity, is not liable for royalties under a license contract even if the claims of a subsequently issued patent literally read on manufactured products, when it is shown that such products are built wholly according to the prior art teachings plus ordinary mechanical skill. *Scott Paper Co. v. Marcalus Mfg. Co.* (1945), 326 U.S. 249; *Casco Products Corp. v. Sinko Tool & Mfg. Co.* (7th Cir. 1940), 116 F. 2d 119, cert. denied (1941), 312 U.S. 693.

Plaintiff has relied upon the cases of *Automatic Radio Mfg. Co. v. Hazeltine Research* (1950), 339 U.S. 827; *Bowers Mfg. Co. v. All Steel Equipment, Inc.* (9th Cir. 1960), 275 F. 2d 809; and *Del Riccio v. Photochart* (1954), 124 Cal. App. 2d 301 [Clk. Tr. p. 2326] in support of his assertion that defendant cannot contest either the validity or infringement of plaintiff's patent. These cases are not in point. [p. 53]

The *Automatic Radio* case merely restated the rule of licensee estoppel where the license was still in effect and there had been no termination or end to the agreement.

The Ninth Circuit case of *Bowers* and the California case of *Del Riccio* do not in any way negate the rule of law that after termination of the license agreement there is no estoppel.

The *Bowers* case was an action to require specific performance of a non-exclusive license concerning a patent which had already issued. The license was entered into to avoid an infringement suit by the patent owner after exchange of correspondence concerning infringement of the patent. The license agreement had certain cancellation provisions, but the licensee did not terminate the license in accordance with these provisions of the agreement. Instead, the licensee attempted to repudiate the agreement on the basis of failure of consideration. The court pointed out that the consideration for the non-exclusive license was essentially a shield from suit for infringement by the grantor, and hence the invalidity of the patent would not constitute failure of consideration for such a license and, thus, would not support a repudiation. The court went on to point out, however, that where the consideration is the monopoly

value of the patent, invalidity of the patent would constitute failure of consideration for such a license.

The patentee in the *Bowers* case summarized the question before the court as follows:

"The execution of the license agreement is admitted by BOWERS, as are all of the facts leading up to the execution of the license agreement. [p. 54] BOWERS contends that as a non-exclusive licensee it has the right at any time to repudiate, abandon, and terminate the license agreement by its unilateral action, notwithstanding the fact that the license agreement in paragraph III (R-38) specifically provides that BOWERS shall have the right to cancel the agreement only in the event (a) that the Keierleber patent is held invalid by a court of competent jurisdiction; and (b) if BOWERS completely discontinues the manufacture and sale of products covered by the Keierleber patent. Except for these two specific grounds for termination, neither of which has occurred, the license, as provided in paragraph I (R 37), was to extend for the full term of the patent, which term ends in July of 1964.

"The single question on this appeal is one of law and may be simply stated as follows: May a nonexclusive licensee by a unilateral notice of termination effectively terminate a license agreement contrary to the terms thereof" [Clk. Tr. p. 1808].

The *Bowers* case merely held that a non-exclusive license entered into as "a shield from suit for infringement by the grantor" [275 F. 2d 809, 811] cannot be repudiated or terminated contrary to the provisions of the license agreement. Thus, the court held that the

repudiation or puported termination did not terminate the license agreement, and the court ordered specific performance of the agreement. In the present action both plaintiff and the court have agreed that the license agreement was terminated as a matter of law in accordance with the provisions of the agreement. Hence, the *Bowers* case does not apply at all. [p. 55]

Moreover, the *Bowers* case involved a non-exclusive license concerning an issued patent having known claims at the date of the license agreement. The licensee even admitted infringement. The license stated:

> "There is no question in our mind that one of our clamps is fully covered by your patent . . ." [Clk. Tr. p. 1801].

In the present case the license was exclusive with a provision that it could become non-exclusive upon certain conditions subsequent, and it was based upon claims in a patent application which were never obtained. The claims that were ultimately obtained do not cover defendant's products and they are invalid. The defendant had the right to participate in the enforcement of any patent which issued against defendant's competitors [Clk. Tr. p. 22]. The competitive value of the patent was the consideration in the present action and it failed to materialize, whereas a mere "shield from suit for infringement" was the consideration in the *Bowers* case. There was a failure of consideration in the present action, but not in *Bowers*.

The *Del Riccio* case, *supra,* is to the same effect as the *Bowers* case. In the *Del Riccio* case a license agreement concerning an issued patent was entered into in order to compromise existing litigation between the parties. The court held that the non-exclusive licensee

could not contest the licensed patent because the consideration for the agreement was primarily the compromise of previously existing litigation between the parties concerning the patent. Thus, the primary consideration was not an enforceable patent monopoly to be established by the allowance of substantial claims in a valid patent, as it was in the present case. [p. 56]

In the present action everyone is in agreement that the license agreement was terminated and of no further force or effect after April 8, 1959. Thus, the doctrine of licensee estoppel simply does not apply.

Plaintiff has no protectible property rights after the agreement was terminated other than the rights conferred by the United States Patent Laws. Defendant has no duty to plaintiff after the agreement was terminated. Hence, there is no basis for any obligation subsequent to April 8, 1959, as more fully discussed in the next sections of this brief.

III.

No Protectible Property Rights Exist for Plaintiff Subsequent to Termination of the License Agreement Other Than His Rights Under The United States Patent Laws.

At the beginning of the trial in the introductory statements to the jury, the court characterized this action as follows:

> "There was a clause in this agreement permitting the defendant to withdraw or terminate under it, which they did; subsequently the plaintiff's employment itself was terminated.
>
> "This is an action in which the plaintiff is claiming that certain devices made by Lear came with-

in the call of this patent and that he is entitled to the royalties to an agreed rate which I think was 1¼, wasn't it?" [p. 239].

At the end of the trial the trial court in the jury instructions characterized the action in the same way, as follows:

> "PLAINTIFF'S REQUESTED JURY INSTRUCTION NO. 49 [p. 57]
>
> "Even though the license of the bearing alignment invention was terminated by Lear's letter of April 8, 1959 and of no further force or effect, Lear is nevertheless liable to Adkins for royalties if you find that any products covered by Adkins' patent were thereafter manufactured and sold by Lear." [p. 3080].

Thus, the trial court characterized the action as one to enforce plaintiff's patent apart from the license agreement, and that is what the directed verdict with respect to the 2156 gyros amounts to. If the judgment of the trial court were to be upheld, it would be *res judicata* that defendant is liable for any 2156 gyros that defendant sells during the life of plaintiff's patent which expires on January 5, 1977.

However, any rights which plaintiff has with respect to his patent, apart from those based upon the license agreement [Ex. 8], must be based upon his statutory patent rights, and not upon the common law or upon state law. Such rights arise under the United States Patent Laws, and the state courts do not have jurisdiction to enforce such rights.

28 U.S.C. 1338 states:

> "(a) The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent and copyright cases."

Rights under state law which conflict with the objectives of the Federal patent laws have been considered recently by the United States Supreme Court and by many lower courts. [p. 58]

In *Sears, Roebuck & Co. v. Stiffel Co.* (1964), 376 U.S. 225, 11 L. Ed. 2d 661, the trial court and the Court of Appeals held a patent invalid for want of invention and then awarded damages to the plaintiff anyway on the grounds of unfair competition. With reference to a cause of action under state law concerning the device of the patented invention, the Supreme Court stated:

> "Just as a State cannot encroach upon the federal patent laws directly, it cannot, under some other law, such as that forbidding unfair competition, give protection of a kind that clashes with the objectives of the Federal patent laws.
>
> "In the present case the 'pole lamp' sold by Stiffel has been held not to be entitled to the protection of either a mechanical or a design patent. An unpatentable article, like an article on which the patent has expired, is in the public domain and may be made and sold by whoever chooses to do so."

In *Compco Corp. v. Day-Brite Lighting, Inc.* (1964), 367 U.S. 23, 11 L. Ed. 2d 669, the Court was

faced with a similar situation in which the trial court and the Court of Appeals had held the patent invalid and in the public domain. The Supreme Court held that damages cannot be imposed under state law with respect to copying the patented device because this would:

> ". . . interfere with the federal policy, found in Art. I, § 8, Cl. 8, of the Constitution and in the implementing federal statutes, of allowing free access to copy whatever the federal patent and copyright laws leave in the public domain. Here Day-Brite's fixture has been held not to be entitled to [p. 59] a design or mechanical patent. Under the federal patent laws it is, therefore, in the public domain and can be copied in every detail by whoever pleases."

With reference to the first cause of action based upon the express agreement concerning plaintiff's patent, the trial court found that the agreement was terminated. As an incident to interpretation of the agreement, and as an incident to plaintiff's allegation of unjust enrichment under *Seagren v. Smith,* and as an incident to the defenses of failure of consideration to support any kind of obligation, the trial court properly considered the validity of plaintiff's patent and held it invalid. Accordingly, damages cannot thereafter be imposed against defendant under guise of state law, such as on the theory of unjust enrichment found in the case of *Seagren v. Smith.* To award damages on unjust enrichment would interfere with the federal policy, found in Art. I, §8 of the Constitution and in the implementing federal statutes as set forth in the *Compco* and *Sears* cases.

The *Sears* and *Compco* decisions were considered in *Jerrold Stephens Co. v. Alladin Plastics, Inc.* (S.D.

Calif. 1964), 229 F. Supp. 536 at page 539 where the court stated that these cases:

> ". . . settle, as a matter of law, the proposition that where a party depends upon the Federal Patent Laws, it cannot, under common law State right or Statutory State right recover for unfair competition."

In the present case the only rights available to plaintiff were those arising under the agreement on patentable claims. The agreement has been terminated, and [p. 60] plaintiff cannot now assert some other right under the common law or under state law, such as the unjust enrichment doctrine of *Seagren v. Smith,* in an attempt to enforce the patent rights which have been declared to be invalid and hence in the public domain.

The *Sears* and *Compco* decisions were also considered in *Cable Vision, Inc. v. KUTV, Inc.* (9th Cir. 1964), 335 F. 2d 348, at page 351, where the court stated with reference to counts for unfair competition and contract interference and violation of quasi property rights:

> "To the extent, then, that the District Court holding extended a new protectible interest beyond what the copyright laws confer, it * * * interfere(d) with the federal policy * * * of allowing free access to copy whatever the federal patent and copyright laws leave in the public domain.' Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234, 237, 84 S. Ct. 779, 782 (1964). This same principle likewise applies to appellees' claim of contract interference. Parties by mere expedient of an exclusive contract can not 'bootstrap' into existence rights from subject matter which at their source lie in the public domain."

CARD 17

In a Law Review article entitled "Protection of the Inventor Outside the Patent System" the commentator stated:

"The common law, stressing secrecy, and the patent statutes, stressing disclosure, are mutually inconsistent, at least to a considerable extent. Although a patent application is not destructive of secrecy, the issued patent contains the patentee's full and voluntary public disclosure. Accordingly, [p. 61] common law protection is thereafter unavailable, even though the patent may ultimately prove void." 43 Cal. Law Rev. 457, 467 (1955).

California statutory law is in accordance with the above quotations to the effect that plaintiff has no protectible property rights under the common law or under state law.

California Civil Code, Section 980(b) states:

"The inventor or proprietor of any invention or design, with or without delineation, or other graphical representation, has an exclusive ownership therein, and in the representation or expression thereof, which continues so long as the invention or design and the representations or expressions thereof made by him remain in his possession."

California Civil Code Section 83(b) states:

"If the owner of any invention or design intentionally makes it public, a copy or reproduction may be made public by any person, without responsibility to the owner, so far as the law of this State is concerned."

Prior to 1947, Civil Code Sections 980 and 983 were at times construed as providing that "ideas" were pro-

tectible property. However, the sections were amended in 1947 to unequivocally exclude "ideas" and California statutory law is now in accord with the common law with respect to ideas.

> *Desny v. Wilder* (1956), 46 Cal. 2d 715, 732:
> *Thompson v. California Brewing Co.* (1957), 150 Cal. App. 2d 469. [p. 62]

Plaintiff's alleged invention has not remained in his possession, and he has intentionally made it public. The 2156 gyros were sold and shipped to customers as early as 1956 [p. 1116, line 8; Ex. 48]. The patent which plaintiff asserts cover the 2156 gyros became a public document on January 5, 1960. In accordance with Civil Code Sections 980 and 983 plaintiff has no protectible property rights in the 2156 gyros after 1956 "so far as the law of this state is concerned", other than the rights with respect to defendant which were created by the license agreement. Those rights were terminated on April 8, 1959.

These code sections were considered by this Court in *Shanahan v. Macco Construction Co., Inc.* (1964), 224 Cal. App. 2d 327. This Court found that any common law rights which Shanahan had in housing plans and designs were extinguished when the plans and the structures were made public. Shanahan also asserted a count for unfair competition and unjust enrichment, just as plaintiff in the present is asserting unjust enrichment under *Seagren v. Smith.* This court found that there was no property right in Shanahan to support a count for unjust enrichment. The court stated at page 340:

> ". . . In any event Civil Code section 983, subdivision (b), protects defendants, in view of the

findings, from any liability for unjust enrichment under these circumstances. Also, under the common law decisions, by publishing their plans plaintiffs lost all rights to protection against the use or appropriation by another of such plans. After voluntary publication these plans were 'free as the air to common use." [p. 63]

Adkins has no property rights in the present case to support recovery on any theory over which the state courts have jurisdiction, including breach of contract and unjust enrichment.

The trial court's rulings and directed verdict which impose liability on "any products covered by Adkins' patent" even though the license agreement was terminated and of "no further force or effect" [pp. 3080, 3092] are void because the state court does not have jurisdiction or power to enforce United States Letters Patents apart from the license agreement. [p. 64]

APPENDIX J.

Rule 15(a) of the "California Rules of Court," "Appellate Rules," "Relating to the Supreme Court and Courts of Appeal."

RULE 15. FORM OF BRIEFS

(a) [*Headings, references, index and tables*] Each point in a brief shall appear separately under an appropriate heading, with subheadings if desired. Such headings need not be technical "assignments of errors" but should be concise headings which are generally descriptive of the subject matter covered. The statement of any matter in the record shall be supported by appropriate reference to the record. Every brief shall be prefaced by a topical index of its contents and a table of authorities, separately listing cases, statutes, court rules, constitutional provisions, and other authorities.

APPENDIX K.

From Pages 94-96 of Lear's "Respondent's and Cross-Appellant's Opening Brief."

1. Defendant Terminated After Plaintiff Failed to Perform Under the Agreement.

Section 6 of the agreement gave defendant the right to forthwith terminate the agreement or any one of the licenses thereof in the event, *inter alia,* that the United States Patent Office refused to issue a patent on the substantial claims of plaintiff's patent application. After repeated refusal by the United States Patent Office to issue a patent on the substantial claims over a five-year period of time, defendant served the required notice and terminated the agreement also pursuant to §6. Section 6 [p. 11 of Ex. 8] of the agreement, as far as Exhibit B to the agreement or plaintiff's patent application Serial No. 410,237 is concerned, states that

> ". . . in the event the U.S. Patent Office refuses to issue a patent on the substantial claims of the application attached to Exhibit 'B', or if such a patent so issued is subsequently held invalid . . . then in [p. 94] any of such events Lear at its option shall have the right forthwith to terminate the specific license so affected or to terminate this entire Agreement and *no further royalties shall thereupon be payable* under the license so terminated or under this Agreement if Lear shall have elected to terminate this Agreement in its entirety." [Emphasis added.]

It is to be noted that the agreement does not require defendant to wait until final action by the United States Patent Office before serving notice of termina-

tion under §6 of the license agreement. The agreement itself does not require final action and final action is not required or implied by law. *Marvin v. Mills Alloys, Inc.* (1939), 31 Cal. App. 2d 549.

The §6 termination provision states that in the event the United States Patent Office refuses to issue a patent on the "substantial claims," defendant at its option shall have the right to forthwith terminate. The "substantial claims" are those that were in the patent application on September 15, 1955, or equivalents thereof, and the Patent Office refused to allow such claims [Ex. P].

Paragraph 17 of the license agreement [Ex. 8] states:

> "It is hereby specifically agreed and understood by the parties that on the date of execution hereof the MA-1 compass Lear Model No. 5005, the Directional Steel Gyro Lear Model No. 2152, and the Vertical Steel Gyro Lear Model No. 2153, are the only products manufactured by Lear under the licenses herein granted, *which contain any of the inventions or claims* described and covered by the respective Exhibits under this Agreement." [Emphasis added.] [p. 95]

During the second week of the trial the Judge stated:

> "In Paragraph 17 there was an application pending refers to the inventions of or claims described and covered by their respective exhibits under the agreement. . . . Well, I am going to hold that Paragraph 17 was composed in view of the claims, the inventions which were embodied in the exhibit attached to the agreement at that time. . . ." [p. 1066, lines 2-9].

A review of the file history [Ex. P] and the finally issued patent [Ex. 10] clearly shows that the claims that were in the patent application at the time the agreement was executed were never allowed, that no method claims were ever allowed, that the claims that were allowed were of a completely different type than those contemplated by the parties upon the execution of the agreement, and that the claims and even the description which forms the basis for the claims were changed so that additional matter was added over and above that which existed on September 15, 1955. Furthermore, there were no claims of any type allowed concerning bearing alignment methods on April 8, 1959, when Lear terminated the agreement and this was five years after plaintiff had filed his patent application and nearly four years after the execution of the license agreement. Thus, it is clear that Lear properly terminated the license agreement under §6 in that the U. S. Patent Office had refused to issue a patent on the substantial claims relating to bearing alignment. This refusal occurred first on March 21, 1957 [Ex. P, p. 44] and it was repeated on June 20, 1958 [Ex. P, p. 57]. [p. 96]

APPENDIX L.

Pages 103 and 116 of the Deposition of John S. Adkins Taken on November 1, 1963.

Whittaker Controls.

Q Are they located here in town?

A They are located at the Van Nuys Airport.

Q You were with this Schwein Company for some six months or so; is that correct?

A From April till December.

Q And your work there was in what field?

A Engineering.

Q What products did they make?

A The products that they made were basically gyroscopes.

Q Was your work connected with gyroscopes there?

A In a fashion.

Q Could you explain that a little more?

A Actually, I wasn't really at Schwein long enough to get into anything project-wise. I never found a real spot at Schwein to work at.

Q That was April to December of 1951?

A That is right. I was never definitely associated with any specific project at Schwein.

Q But it was in the field of gyroscopes?

A Right.

Q Of course, you were at that time an engineer so that your work was in the engineering field of gyroscopes?

A That is right. [p. 103]

A Bind up of the bearings.

Q I am not sure I know what that means.

A If you get the bearings in a condition where they tend to resist rotation.

Q And what would cause that?

A Misaligned bearings could cause it.

Q What would the result be of a gyroscope that that was caused in?

A High drift precession.

Q Is that good or bad?

A That is bad.

Q At the time in late 1951 or early 1952 when you first were considering coming to work for Lear, at that time you were employed at Schwein, as I understand it?

A No, I never considered coming to work for Lear when I worked for Schwein.

Q I thought there was no gap. Was there a gap between?

A Yes.

Q Roughly, how long?

A Twenty days.

Q This was in what, December, 1951?

A December, 1951.

Q What were you doing during those 20 days?

A Loafed. [p. 116]

APPENDIX M.

Agreement Between Lear, Inc. and John S. Adkins Dated December 29, 1951.

LEAR, Incorporated
LearCal Division

11916 West Pico Blvd.
Los Angeles 64, Calif.
December 29, 1951

AGREEMENT BETWEEN LEAR, INC. AND JOHN S. ADKINS

This agreement pertains to vertical gyros which are to be fabricated at Lear, Inc., under the supervision of John S. Adkins.

All physical instruments fabricated shall become the property of Lear, Inc.

All new ideas, discoveries, inventions, etc., related to said vertical gyros become the property of Mr. John S. Adkins.

Mr. John S. Adkins agrees to license Lear, Inc. to manufacture said vertical gyros on a mutually satisfactory royalty basis.

SIGNED:

/s/ Wm. P. Lear
Wm. P. Lear
For Lear, Incorporated

/s/ John S. Adkins
John S. Adkins

APPENDIX N.

Rule 1.113 of the "Rules of Practice in Patent Cases" (37 C.F.R. §1.113).

§1.113 *Final rejection or action.*

(a) On the second or any subsequent examination or consideration, the rejection or other action may be made final, whereupon applicant's response is limited to appeal in the case of rejection of any claim (§ 1.191), or to amendment as specified in § 1.116. Petition may be taken to the Commissioner in the case of objections or requirements not involved in the rejection of any claim (§ 1.181). Response to a final rejection or action must include cancellation of, or appeal from the rejection of, each claim so rejected and, if any claim stands allowed, compliance with any requirement or objection as to form.

(b) In making such final rejection, the examiner shall repeat or state all grounds of rejection then considered applicable to the claims in the case, clearly stating the reasons therefor.